

## Korea's Royal Families: South Korean Presidential Politics and the Political Economy of *Chaeböl* Reform

By Rob York

With a month left in South Korea's tightly-contested 2012 presidential election, one of the frontrunners spoke out against the business practices of the nation's largest conglomerates. "We haven't paid enough attention to fairness," this veteran political figure told the press. "[Big companies] can invest and create jobs, but they also have some bad practices – they concentrate their business among their own groups, they snatch technology from small companies, and they enforce prices."<sup>1</sup>

These large, family-controlled Korean<sup>2</sup> enterprises, known as *chaeböl*<sup>3</sup>, have made themselves easy targets for criticism in recent years, blamed for exacerbating some of the nation's worst economic trials through their overexpansion, while also leaving little room for small businesses to grow. Certain *chaeböl* leaders have found themselves in trouble with the law in recent years as well, prompting additional outrage by avoiding jail time through their political influence. How widespread are such concerns? The above quote comes from Park Geun Hye, nominee of the conservative, pro-business Saenuri Party, who eventually prevailed in that election. Her statement was all the more striking in that she is the daughter of Park Chung Hee, the nation's dictatorial strongman whose support helped make the *chaeböl* into the behemoths they are today.

However, that such criticism has become commonplace has hardly guaranteed reform under Park's administration. Ever since her father's eighteen years in power, Korea's leaders have tied their legitimacy to economic progress, developing a symbiotic relationship with the *chaeböl*. This has actually worsened since Korea's democratic transition of 1987, as presidents typically promise reform, then neglect it due to their political ambitions and to placate citizens tired of diminishing economic results. As a result, the vantage point the *chaeböl* enjoy – not only from sitting atop the nation's economy, but sometimes in court with those who would criticize them – remains unchanged. Therefore, the *chaeböl*, those remnants of Korea's dictatorial development, have been the big winners in Korea's presidential politics in the democratic era.

This paper traces the impact of the *chaeböl* on South Korea's politics. After touching upon the authoritarian leaders who dictated policy to the conglomerates, it analyzes each of the democratically-elected leaders since 1987, finding that, needing to win elections, all have accommodated the *chaeböl* in hopes of growing the economy. Particular attention will be paid to the often-overlooked presidency of Kim Young Sam, the clearest opportunity for thorough reform of the *chaeböl* since democracy came to Korea. Kim, a right-leaning yet reformist, civilian president elected on promises of breaking with his military-backed successors, did deliver on many of his promises of military, financial, and political reform.

However, instead of applying a similar approach to the *chaeböl*, Kim actually increased support for the conglomerates. He did so to achieve his aspirations of economic growth matching that of his predecessors, but not only did these policies fail, they created conditions making it difficult for his successors to finish the task. Since Kim, Korea has not enjoyed a reform-minded president with majorities in the legislature throughout his term, and two of his successors took office with the effects of an externally-originating financial crisis to contend with. Now that

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<sup>1</sup> Williamson, Lucy. "Chaebol Debate Rages in S Korean Election," BBC News, December 18, 2012, section goes here, accessed May 02, 2013, <http://www.bbc.co.uk/news/business-20752804>.

<sup>2</sup> "Korea" will be used in place of "South Korea" from here, unless a mention of North Korea becomes necessary.

<sup>3</sup> Literally meaning "wealthy clan," *chaeböl* has become something of a synonym for "corporation" in Korean society.

Korea once again has a right-leaning president with majorities in the National Assembly and relative economic stability, this paper will explore the lessons Kim's administration, and others, may hold for her and for future presidents.

### The *chaeböl* before 1988

After Park Chung Hee seized power in a military coup, he turned his attention to a number of wealthy businessmen, accusing them of illicit wealth accumulation under former President Syngman Rhee in the 1950s. Using accusations of corruption under Rhee as leverage, he forced the firms who would become the *chaeböl* into a partnership. If they would follow his economic agenda, he rewarded them with low, at times negative, interest rates,<sup>4</sup> barriers to foreign competition, cheap labor, a monetary policy that enabled exporters, encouragement to expand, and assurance that they would not be left to go bankrupt.<sup>5</sup>

The government at first chose export-heavy sectors like textiles and apparels for the conglomerates to enter. Their structure and role in society came to emulate that of the *zaibatsu*, the Japanese family-owned conglomerates who had dominated the empire's economy in the 1930s and 1940s. Braving furious domestic protests, Park normalized relations with Japan in exchange for a grant of \$300 million and loan of \$200 million.<sup>6</sup> He committed 50,000 military personnel to assist the US military endeavor in Vietnam, which led to fruitful construction projects that greatly boosted Korea's exports. Support for the Vietnam War also led to the Brown Memorandum, under which \$1 billion in US aid was directed into South Korea from 1965 to 1970.<sup>7</sup> Funds from these foreign policy coups were channeled into development ventures; after exports, the second phase of Park's development dream was to take place in the realm of heavy industry, including steel projects meant to fulfill his dreams of an industrialized nation with a self-reliant military. In fact, this growth would outlive Park, who was assassinated by his own intelligence chief in 1979 after a dispute over Park's ruthless suppression of protests. But, by 1985, South Korea had increased its per capita GNP twentyfold to \$2,000 since 1965,<sup>8</sup> a duplication of the feat post-war Japan had accomplished from 1950 to 1970.

Park's successor as president, former general Chun Doo Hwan, also came to power in a military coup and, once there, did much to maintain Park Chung Hee's dreams of expansion. After some early anti-inflation measures, like cutting corporate subsidies and tightening monetary policy from 1981 to 1983, Chun began pushing science and technology, nearly tripling investment into research and development's share of GDP to 2.2 percent between 1981 and 1987. In doing so, it may be said that he launched the next phase of Park's industrial policy, as the nation's telecommunications infrastructure vastly expanded, overtaking textiles as the nation's primary industry<sup>9</sup> and paving the way for the nation's future successes in information technology, as well as its status as the world's most wired nation, where ninety-five percent of the populace has broadband Internet access.<sup>10</sup> So great were Chun's economic successes that, despite the

<sup>4</sup> Beck, Peter. "Revitalizing Korea's *Chaebol*. *Asian Survey*. (1998) Pg. 1019.

<sup>5</sup> Meredith Woo-Cumings, *Race to the Swift: State and Finance in Korean Industrialization* 1991: 15.

<sup>6</sup> For context, consider that Korea's total exports at the time amounted to \$200 million

<sup>7</sup> Choong Nam Kim, *The Korean Presidents: Leadership for Nation Building* (Norwalk, CT: EastBridge, 2007) 396.

<sup>8</sup> Sunhyuk Kim and Doh Chull Shin, *Economic Crisis and Dual Transition in Korea: A Case Study in Comparative Perspective* (Seoul, Seoul National University Press, 2004). Pg. 51.

<sup>9</sup> Choong Nam Kim 181-189

<sup>10</sup> Flandreau, Michelle. "South Korea: Why So Wired?," ABC News, June 25, 2010, accessed May 02, 2013, <http://abcnews.go.com/GMA/south-korea-wired/story?id=11011988>.

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forced slowdown to curb inflation early in his tenure, the nation still grew by an annual average of 9.5 percent during his seven and a half year tenure.<sup>11</sup>

Then he accomplished something Park had not, handing over power to a democratically elected successor closely allied with him.

### **Roh Tae Woo – 1988-1993**

Chun's hand-picked successor was Roh Tae Woo, a former major-general in the South Korean Army. Having acquired legislative experience and a reputation for modesty and an even keel, Roh was prodded into presidential politics by Chun, with his conciliatory demeanor making him an easy sell as an alternative to his predecessor. In the 1987 election, Roh took 36.6 percent of the votes, the highest share in a race split among four candidates.

Roh's conciliatory approach, as he announced the release of pro-democracy protestors imprisoned during the authoritarian years, provided a fresh source of optimism, and he included some early talk of "economic democratization." He quickly learned, though, that democracy brought with it complications. In April 1988, just months after his inauguration, his party<sup>12</sup> faced a setback in National Assembly elections, as energetic campaigning by the three parties chaired by the three men he had defeated in 1987 left Roh's bloc without a legislative majority. Freed from political oppression and thirsting for revenge, the opposition parties refused to work with Roh and the business of the legislature became devoted to hearings on the wrongdoings of the Chun years.

Starting with Roh, Korea's democratic leaders have attempted to duplicate, or at least approximate, the economic success of their authoritarian forerunners even though silencing dissent, particularly among organized labor, is less feasible and opposition forces have had more freedom to speak out. This is not the only problem plaguing Korea's democratic governments since Roh, however: Park Chung Hee had poured over statistics, and overseen projects such as the nationwide highway system step-by-step.<sup>13</sup> Chun Doo Hwan had arranged that he be tutored extensively in economics in the early days of his administration and his experiences at a technical high school had motivated his push into R&D investment.<sup>14</sup> In addition to facing keener resistance from a newly empowered civil society, since Roh Korea's leaders have not been managers, but politicians attempting to duplicate the successes of these authoritarian leaders without similar management skill or attention to detail.

Early in this tenure, for example, Roh could not settle on a consistent economic policy, or even an economic team. Inflation, increased protectionism in Korea's top export markets, and workers' demands for raises spiked, and by 1989 the nation's economic growth had dwindled to 6.4 percent, half that of the previous year. By the standards of most nations, this rate would seem a blessing, but memories of twentyfold development were fresh in the public's mind.

Roh appeared to arrive at a solution for the legislative standoff in 1990, when he negotiated a compromise with Kim Young Sam and Kim Jong Pil, two of his opponents from 1987, in which their three parties formed a single ruling bloc that controlled 217 out of 299 Assembly seats. With this change, the passage of bills became easier almost immediately; on one

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<sup>11</sup> Choong Nam Kim, 209.

<sup>12</sup> Dubbed the "Democratic Justice Party" following Chun's assumption of the presidency, it became the "Democratic Liberal Party" following a tripartite merger in 1990, followed by three more name changes, most recently settling on the "Saenuri (New Frontier) Party" in 2012. This and frequent moniker changes by its the left-leaning opposition party, means that the terms "conservative party" and "progressive party" will be used to describe the two largest blocs. Full party names will only be used when referring to minority blocs, or when distinguishing between the parties making up a coalition.

<sup>13</sup> Choong Nam Kim 116

<sup>14</sup> Ibid 168-179

July day in 1990 they passed twenty-six bills in thirty seconds.<sup>15</sup> The new party announced that a more gradual approach to economic reform was necessary, effectively calling for a return to pro-growth policies. Still, efforts to kick-start the economy failed despite grandiose infrastructure plans including the building of a high-speed railway connecting Seoul to Busan. By 1992, the economy grew just 4.7 percent, the lowest since the year following Park's assassination.

As Roh struggled, he lost control of his own party. Kim Young Sam in particular grew into an influential force, gradually using Roh's setbacks and military past as an excuse for why he, with a non-military background and reformist record, should lead the party. Though Kim did not command the largest faction with the ruling party, efforts to find an alternative to him failed and he won the nomination for president in for the 1992 election. As Roh's political capital evaporated, his calls for economic democratization and for the *chaebŏl* to jettison unprofitable ventures diminished. Instead, rampant land speculation meant that they were not putting the profits of the Chun years to productive use, and Roh's infrastructure projects continued to boost their profits.

### **Kim Young Sam: 1993-1997**

Kim Young Sam won the 1992 election with just forty-one percent of the vote, split among three candidates, but arrived in office with a clear mandate. Having served as an Assembly member since the 1950s and once of the loudest opponents of Park Chung Hee in the 1950s, he had become the first civilian president in more than three decades. Following his inaugural address, in which he blasted the "Korean disease" – corruption and authoritarianism, which he blamed on his predecessors – and promised a new beginning, polls showed that ninety-five percent of the country supported his agenda.

Kim imposed an anti-corruption drive on the government, leading to the arrest, firing, or censure of nearly a thousand government officials within three months. Major names in the business world also fell: Chung Ju Yung, chairman of Hyundai and the third-place finisher in the 1992 election, was indicted on charges of embezzling company funds for use in his campaign, and Park Tae Joon, the founder of POSCO and former prime minister, fled the country rather than face tax evasion charges.

Kim then turned to the military, whose leaders had twice seized the presidency in coups since 1961. Kim declared that the 1979 coup in which Chun seized control of the government had been illegal, and began terminating "political soldiers," i.e. officers who were members of *Hanahoe*, a fraternity of closely-linked Korea Military Academy graduates<sup>16</sup> from which both Chun Doo Hwan and Roh Tae Woo had emerged. Within one year, Kim dismissed more than a thousand military officers on bribery and other charges, an endeavor which firmly establishing his control over the military. Furthermore, Kim made a lasting anti-corruption contribution in summer 1993 by announcing the Real-Name Financial Transaction System, which prohibited anonymous financial purchases, or those under an assumed name, to drive a wedge between the worlds of business and government.

However, even as Kim Young Sam threatened to root out corruption and end the concentration of wealth in the hands of a few, he was promising the revitalization of the economy. This promise sat uneasily beside Kim's anticorruption promises, which by their nature would cause disruptions even if they resulted in greater long-term benefits. By late 1994 Kim's popularity had significantly dropped. There were several causes: the public had come to see the relentless anti-corruption purges as politically-motivated in that they eliminated Kim's enemies

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<sup>15</sup> Ibid 218-230.

<sup>16</sup> Yoon, Sanghyun. "South Korea's Kim Young Sam Government: Political Agendas," *Asian Survey* 36, no. 5 (May 1996): pg. 512.

and their supporters, but a series of fatal manmade disasters,<sup>17</sup> and the repeated and seemingly arbitrary re-shuffling of Kim's aides contributed as well. Suddenly Kim's emphasis shifted, as did his definition of the "Korean disease." Where it was once a general stagnation brought about by corruption and disillusionment with authority, Kim now diagnosed the nation as suffering from closed-mindedness. The proposed cure was *Segyehwa*, a policy of globalization with a Korean character, signified by its retention of its Korean name even in documents translated into English. True to its name, Kim had in mind opportunities for foreign business to make inroads into Korea's markets, but also for major Korean entities to expand at home and abroad.

Whereas previous governments had set targets for the *chaeböl* to meet and in some cases required them to enter certain sectors, the government was no longer directing their activities but allowing them to diversify rapidly, meaning Kim had surrendered part of the restraints Eckert identified as preventing hegemony. As such, a *chaeböl* with an unreformed management structure took on an even larger position in the market, justified by efforts to increase their global competitiveness for the sake of national prestige. Loans from banks, state-owned or otherwise, flowed to the *chaeböl* in great supply. "Believing in their own invulnerability," Sunhyuk Kim and Doh Chull Sin write, "the most powerful *chaeböl* groups chose to overspend, overborrow, and overexpand."<sup>18</sup> Over time, many of the projects for which these loans were issued failed spectacularly, and investigations into certain loans reveal governmental favoritism that struck at the heart of Kim's reputation for integrity. The *chaeböl*, broadly supportive of Kim's *segryehwa* agenda, lobbied for him to hasten the process by deregulating the financial and foreign exchange markets, as well as to abolish previous restrictions on trade.

For a time economic indicators responded favorably to the changes. In 1995 the country, with the help of an inflated *wön*, achieved the symbolic status of \$10,000 per capita income.<sup>19</sup> In 1996, in return for financial market liberalization, Korea obtained membership in the Organization for Economic Co-operation and Development, the second Asian nation after Japan to enter the "rich nations club." However, the liberalization of financial markets was a complicated process. As Edward M. Graham has noted, the procedures for deregulating short-term borrowing procedures were made easier, while the more complicated process of deregulating long-term borrowing was delayed. As such:

The result would be a mismatch between the term structure of liabilities (the short-term debt owed to foreigners) and assets (the long-term investments financed by that debt, if the foreign financing was direct; or, if the foreign funds were intermediated by banks, the loans of the banks to those who made the ultimate investments). Bankers generally see this mismatch as problematic, because if investors who have funded the liabilities were to withdraw their funds, there likely would be no liquid funds available to pay the investors.<sup>20</sup>

Furthermore, the OECD accession process left much of the nation's assets denominated in *wön*, but much of its debt owed in US dollars.

Also, as support for the *chaeböl*'s expansionary ambitions continued, their leaders were also shielded from Kim's efforts to establish the rule of law. While popular outcry had led to the

<sup>17</sup> These included the collapse of a Seoul bridge, which killed thirty-two, and a Seoul department store collapse that killed more than five-hundred.

<sup>18</sup> Kim and Sin, 24.

<sup>19</sup> And though symbolic, one can understand why it was considered meaningful, as the per capita income had amounted to less than \$90 at the time of Park Chung Hee's first five-year economic development plan in 1961.

<sup>20</sup> Edward M. Graham, *Reforming Korea's Industrial Conglomerates* (Washington, DC: Institute for International Economics, 2003). Pg. 99.

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prosecutions of ten *chaeböl* heads in the aftermath of the Roh Tae Woo scandal, an indicative meeting took place in February 6, 1996, in which business leaders, including nine of those on trial at the time, were summoned to the presidential residence for a dinner meeting with Kim. Here, one day after giving a speech in which he repeated his pledge to stamp out corruption and just two days since prosecutors had called for stiff jail terms for the tycoons, the ostensibly reform-minded president told them that their legal difficulties had caused him “great heartache.”<sup>21</sup> All of them, including Samsung Electronics chairman Lee Kun Hee, would eventually receive a presidential pardon.<sup>22</sup>

Ultimately, Kim prioritized economic and electoral success over reform and achieved neither. In 1995, Kim’s decision to reinstitute local elections for the first time since the 1961 coup was rewarded with embarrassing losses. The chairman of the ruling conservative party, Kim Jong Pil, defected to start his own. Kim was saved, at least for the time being, by the revelations of Roh Tae Woo’s corruption. In the early years of his term, Kim had declined to pursue prosecution of either Chun or Roh for their roles in the 1979’s December 12 coup – which had brought Chun to power with help from Roh – or for the brutal suppression of the 1980 Gwangju Uprising. The decision outraged activist groups and relatives of the victims, who formally registered a complaint with the Constitutional Court. Before the court ruled, however, the discovery that Roh Tae Woo was actually in control of an account under the name of Daewoo chairman Kim Woo Chung prompted an outcry that gave Kim cover to change positions. Even though the fifteen-year statute of limitations on Gwangju had expired just months earlier, Kim ordered the assembly to pass a special law allowing for the “truth” of the 1979 and 1980 events to be uncovered, paving the way for the prosecutions of Chun and Roh despite the Constitution’s prohibition of *ex post facto* laws.<sup>23</sup>

The overwhelmingly popular decision – it passed the assembly 225-20 – made Kim a politician reborn. Following a vigorous 1996 campaign season, Kim’s party maintained their legislative majority. Chun and Roh were convicted in court that same year, with the latter receiving a twenty-two year sentence and the former sentenced to death.<sup>24</sup> Kim’s resurgence would be short-lived, however.

Following the bankruptcy of Hanbo Steel in early 1997, an investigation revealed that legislators and staff close to Kim Young Sam had pressured banks into issuing loans worth \$6.2 billion, or twenty times Hanbo’s net worth. A torrent of allegations followed, including that the president’s son, Kim Hyun Chul had leaned on banks to pour money into a Hanbo steel mill project.<sup>25</sup> The charges for which the younger Kim would eventually be prosecuted have been described as relatively minor compared to the rumors of widespread election-rigging that surrounded him: tax evasion and taking bribes from small businessmen.<sup>26</sup>

Nonetheless, they sank the reputation of his father. Kim Young Sam no longer appeared a genuine warrior for clean government and, following a shameful public apology, he spent much of 1997 out of the political limelight. In retrospect, what anti-corruption efforts he undertook appear all too politically convenient: most government and military officials punished in the early

<sup>21</sup> NPR. "Korean President Kim Invites Business Leaders to Dinner," High Beam Research, February 7, 1996, accessed April 25, 2013, Korean President Kim Invites Business Leaders to Dinner.

<sup>22</sup> Yang, Jun. "Samsung's Family Feud," Bloomberg BusinessWeek, June 7, 2012, section goes here, accessed April 25, 2013, <http://www.businessweek.com/articles/2012-06-06/samsungs-family-feud>.

<sup>23</sup> Waters, David M. "Korean Constitutionalism and the Special Act to Prosecute Former Presidents Chun Doo Hwan and Roh Tae-woo," *Korean Constitutionalism and the Special Act to Prosecute Former Presidents Chun Doo Hwan and Roh Tae-woo* 10 (1996): pg. 461.

<sup>24</sup> Both former presidents would have their sentences commuted by Kim in December 1997.

<sup>25</sup> At around the same time Hyundai, chaired by Kim’s former political enemy Chung Ju Yung, was denied entry into the steel industry.

<sup>26</sup> Chang, Kyung-Sup. "Compressed Modernity and Its Discontents: South Korean Society in Transition," *Economy and Society* 28, no. 1 (1999): pg. 34-35.

days of his administration had acquired their experience under the prior administrations Kim had repudiated. Chung Ju Yung had opposed Kim in the contentious 1992 election, at one point slamming Kim as having “limited intelligence.”<sup>27</sup> Park Tae Joon’s POSCO had been central to the ambitions of Kim’s old enemy, Park Chung Hee, and he had considered running against Kim for the ruling party’s nomination in 1992.

Yet, by the summer of 1997, and despite the difficulties of Kia and Hanbo, strong growth continued and it appeared that no crisis was imminent. Kim’s tenure might have been regarded as a merely disappointing, as opposed to disastrous, period had it not been for international developments. Starting in July, Thailand required international assistance to meet its debts, then Indonesia’s currency sank in value. Korean financial institutions, having lent generously to Indonesian banks, were suddenly faced with contagion. Soon the Hong Kong Stock Exchange was plummeting and investors had lost confidence in Asian economies in general. Continuing efforts to prop up the *wŏn* failed.

In August, before the worst of the crisis had set in, Kim talked reform of the financial system to make it more transparent and maintain the confidence of investors. No longer a figure of commanding moral authority, though, Kim’s request was rebuffed by the Ministry of Finance and Economy, the Bank of Korea, and the National Assembly. By the time the severity of the situation was evident it was too late. The financial crisis had left Korea with debts of \$24.6 billion that required payment immediately and another \$14.9 billion that would need paying by the end of January. Furthermore, Korea’s assets had been denominated in *wŏn*, its debt in dollars, and the *wŏn*’s value had plummeting from 900 won to the dollar in October to a record low of 2,067 won by December 23, placing the payment of those bills lay beyond attainment.<sup>28</sup>

### **Kim Dae Jung – 1998-2003**

The crisis provided an opportunity for Kim Dae Jung, who at age 73, was pursuing the presidency for the fourth time. After a fracture in the ruling camp caused Lee In Je to split off and pursue a third-party run, Kim Dae Jung shored up his chances of winning the presidency, interestingly enough, by allying with former Park Chung Hee confidant Kim Jong Pil. He overcame Lee Hoi Chang, the former chief justice of the Supreme Court and former prime minister under Kim Young Sam, by a margin of one and a half percent. Among the objectives that he came into office with was reform of the *chaebŏl* who, given their role their misadventures had played in a national disaster, were looking particularly vulnerable to political pressure.

However, Korean presidents, even those who strongly intended to reform the *chaebŏl*, would never have as strong a hand to play as Kim Young Sam had. Kim Dae Jung provides perhaps the best example of this, as his decades-long advocacy for Korean democracy had made him a figure revered by many, but deeply distrusted by others. “His strong anti-[Park Chung Hee] rhetoric attracted a large progressive and radical following,” Choong Nam Kim writes. “Thus, Kim acquired a reputation for being radical and even dangerous.”<sup>29</sup>

Furthermore, Kim benefited and suffered from the stigma of regional politics, as his deep connections with the Chŏlla region had given him a devoted base of support but also earned him the suspicions of other regions. Despite the calamities of the financial crisis (and Kim Young Sam’s decimation of the ruling camp through his anti-corruption purges), Kim Dae Jung’s 1997 election victory was only made possible through the fracturing of the conservative party, plus his alliance with Kim Jong Pil. In exchange for the support of his new compatriot’s United Liberal Democrats and their Ch’ungch’ŏng regional support base, Kim Dae Jung promised the office of

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<sup>27</sup> Graham 89.

<sup>28</sup> Graham 106-107.

<sup>29</sup> Choong Nam Kim 313.

prime minister once he took office. With all this, Kim's margin of victory remains the smallest in Korean electoral history, giving him limited political capital for solving the *chaeböl* issue.

In his time abroad in exile, though, Kim had acquired an appreciation for economic liberalization particularly during his time in Britain during Tony Blair's Third Way policies,<sup>30</sup> and thanks to his skills as a politician and adroit reaction to the crisis he achieved some notable successes. In December 1997, two days after the election, with Kim Young Sam inspiring no faith domestically or abroad, the transition process began. The two Kims met, forming a crisis resolution committee made up of their respective aides, and then Kim Dae Jung went to work phoning heads of state in the United States and Japan, promising his commitment to resolving the crisis and asking for their assistance.

Kim, who had spent three years in the United States following his first presidential defeat in 1971 and who had a US-educated wife, showed more comfort with US officials than his predecessor, successfully convincing them to rollover \$24 billion of Korea's debt, giving them a longer timetable for paying it back. Then, in early February, Kim used his long-standing connections with the labor movement and Korea's critical economic circumstances to negotiate a "grand compromise" between labor and business leaders, something Kim Young Sam had failed to do in five years.

By the time Kim Dae Jung took office in February, he had already resolved much of the crisis that Kim Young Sam's administration had left him. Along the way, he had met with the heads of the four largest *chaeböl* and began his call for them to restructure their operations. They agreed, as did a group of smaller *chaeböl* leaders at a second meeting that month.<sup>31</sup>

For the next couple of years, though, Kim Dae Jung walked a fine line between reviving the national economy and fulfilling his promise of economic reform. Many measures enacted were significant: the grand compromise he had negotiated with labor groups had allowed management to lay off workers if necessary. The new broadly empowered Financial Supervisory Commission exercised its new power to strip insurance firms of their licenses, allow banks to fail, and pressure *chaeböl* into downsizing and getting their debt levels under control through the threat of restricted access to credit.

A measure of fiscal soundness was restored under Kim, as *chaeböl* debt levels dropped an average twenty-six percent, and the recalcitrant Daewoo Group was broken up. Still, Kim's *chaeböl* policy is considered mixed: central to Kim's policy toward them was his idea of Big Deals, under which struggling *chaeböl* groups would be pressured to negotiate mergers with similar groups in stronger financial shape. This voluntary (but strongly encouraged) program was difficult to put into practice, though, as the *chaeböl* groups were only partially successful in reaching such agreements. Furthermore, Kim did little to correct their monopolistic position in the market, as their equity holdings expanded 126 percent in the two years following the crisis. Choong Nam Kim writes that the Big Deals "did not address the main economic problems of the *chaeböl*, such as excesses in capacity, debt, and workforce."<sup>32</sup>

Much as was the case in the Kim Young Sam years, much of Kim Dae Jung's achievements in dealing with the *chaeböl* – and domestic policy in general – were accomplished in the first two years of his presidency. In 1999, as economic activity began to pick up, Kim declared the financial crisis over, leaving additional tough measures unfinished. In Assembly elections in 2000, the coalition partners for Kim's Millennium Democratic Party, Kim Jong Pil's United Liberal Democratic Party, were crushed in the Ch'ungch'öng region, giving conservatives opposed to Kim's agenda control of the legislature. That was the year of Kim's historic summit with North Korean leader Kim Jong Il, after which North Korea became the focus of his efforts. It

<sup>30</sup> Jesook Song, *South Koreans in the Debt Crisis: The Creation of a Neoliberal Welfare Society* (Durham, NC, and London: Duke University Press, 2009). Pg. 7.

<sup>31</sup> Choong Nam Kim 316-318.

<sup>32</sup> Choong Nam Kim 325.

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won him a Nobel Peace Prize, but his emphasis there may have been partially because foreign policy was the one area where he could still play a leading role.

### **Roh Moo Hyun – 2003-2008**

An *Economist* analysis published in April 2003 entitled “Unfinished business: Reform of the *chaeböl* is only half-way there,” gave Kim Dae Jung credit for a change in the structure of the family-owned conglomerates, but a sense of dissatisfaction with the reform efforts was noted. “The reason [the *chaeböl*] are coming under fire is not that they have failed to reform their businesses, but that their founding families continue to show disdain for the rule of law as well as for minority investors.” Left to take on the problem was Kim Dae Jung’s successor, Roh Moo Hyun, who had reached the presidency through a combination of democratic idealism and independence. In his campaign, Roh made three promises regarding *chaeböl* governance. The first of these was to close tax loopholes, thus preventing the families in control of the conglomerates from avoiding gift and inheritance taxes. Second, it planned to allow small shareholders to sue firms performing deals against the minority interests in court. Finally, it sought to bar industrial companies from owning financial subsidiaries.

*The Economist* warned that the execution of these plans, especially the third, would require a pragmatic approach. Upon election, though, Roh displayed little of this quality, at one point promising to achieve seven percent economic growth per annum for ten years while conducting *chaeböl* reform, which was obviously impossible. Furthermore, he lacked Kim Dae Jung’s political savvy, and spent much of his term pursuing unrealistic or politicized objectives including the “rectification of history” – i.e. identifying the descendants of collaborators from the Japanese colonial period, the insinuation being that this would discredit the conservative party – and the construction of several administrative and business cities, built around the idea of making Korea an economic hub of Northeast Asia.

Also, the implosion of Kim Young Sam’s presidency may have denied conservatives the executive branch two terms in a row, but their party maintained its legislative presence. Indeed, the political climate had become even more poisoned following the Kim Dae Jung years, making broad social reforms such as those required to rein in the *chaeböl* difficult. Roh had won the presidency through brave activism and novel ideas, but was nonetheless fortunate to be there: he had won a narrow come-from-behind victory in 2002 over the perpetually unlucky Lee Hoi Chang after capitalizing on a spike in anti-American sentiment following the accidental death of two schoolgirls struck by a US military vehicle that summer. Once in office, Roh struggled with an economy that did not meet expectations, due in part to a slowdown in consumption brought on by his predecessor’s loosening of credit card restrictions.<sup>33</sup> Furthermore, unlike Kim Young Sam, Roh struggled with the National Assembly, which was dominated by a conservative majority for much of his term. One trait he shared with Kim Young Sam, his former party leader was idealistic sloganeering unaccompanied by management experience, which led to ongoing criticisms of incompetence and low popularity ratings, paving the way for a change of hands in the 2007 elections.

### **Lee Myung Bak: 2008-2013**

After ten years of liberal rule, the 2007 presidential election placed one of the *chaeböl*’s own, former Hyundai executive Lee Myung Bak, in the Blue House. Had he so desired, Lee would have been in better position to attain their reform, as he enjoyed massive majorities in the Assembly throughout his term. Roh’s undertow had sunk the opposition, which had difficulty even settling on a party name throughout much of the Lee administration. Lee, however, was no

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<sup>33</sup> Choong Nam Kim 371-373.

reformist in the mold of Kim Young Sam or Kim Dae Jung: he had been elected on promises to use his management experience to restore the economy, and like Roh Moo Hyun he promised seven percent annual growth. Ambitions of this sort would be abandoned later in 2008, though, following the worldwide financial crisis, though his popularity was briefly restored by his government's rapid response to the downturn.

Lee changed focus in the years to come, adopting "fair society" as his government's priority, stating that he would curb long-standing tendencies such as nepotism, though criticism that his policies favored the wealthy would persist. However one assesses his general economic plan, Lee set a new precedent in *chaeböl* policy when he issued Samsung chairman Lee Kun Hee a special amnesty in late 2009. A year earlier the Samsung executive had received a three-year suspended sentence, this time following embezzlement and tax evasion, as well as a fine of 110 billion won despite prosecutors' request for a seven-year sentence and 350 billion won fine.<sup>34</sup>

It was the second time Lee Kun Hee had been pardoned by a Korean president after a conviction for financial impropriety. In this case, though, Lee Myung Bak granted a special amnesty, a pardon for just one person. He was also not giving it to a little-known felon who had served the bulk of his sentence; it was for a *chaeböl* leader who had not served any jail time.

The pardon was justified as a reward for Samsung's contributions to Korea's economy, and specifically so Lee Kun Hee could serve on the committee seeking the rights for Korea to host the Winter Olympics in 2018. The pardon, however, meant that Lee Kun Hee was free to return to the helm at Samsung, and the use of the presidential pardon to help a specific member of the business elite had little precedent. One example that did exist, though, was Kim Young Sam's general amnesty of the ten *chaeböl* leaders in 1997 as his *Segyehwa* policy sought to foster expansive growth. That the pardon had not frequently been used for this purpose prior to Kim's administration is not a credit to his predecessors, who were so close to business leaders that such criminal cases were rare. Nonetheless, it opened a new avenue for the wealthy to benefit from political contributions and gave an extra sheen their veneer of indispensability – one that even proof of lawbreaking could not remove.

### Keys to reform

The eventual winner of South Korea's 2012 presidential election, conservative candidate Park Geun Hye, would seem to be in stronger position to reform the *chaeböl* than her predecessors if serious about doing so. Though they traditionally have closer ties to the business community, presidents from the conservative party have other advantages: namely, they tend to win by larger margins<sup>35</sup> and enjoy larger, more durable majorities in the National Assembly. Were she able to overcome opposition in her own party, it would seem possible that opposition progressives could be convinced to support a sustained *chaeböl* reform effort. Also, as a conservative and daughter of the president who laid the foundations for Korea's economic miracle, it would be difficult for conservatives to brand her "dangerous," "a radical," and the like. And finally, unlike her immediate predecessor, Park does not owe her career to success in the conglomerates, nor she dealing with the effects of an economic crisis.

However, since the Kim Dae Jung administration, there has not been a sustained effort to reform *chaeböl* business practices and insist that they abide by the rule of law. This is particularly problematic considering that, under South Korean law, companies such as Samsung

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<sup>34</sup> Choe, Sang-hun. "Korean Leader Pardons Samsung's Ex-Chairman," *Korean Leader Pardons Samsung's Ex-Chairman*, December 29, 2009, accessed May 06, 2013, [http://www.nytimes.com/2009/12/30/business/global/30samsung.html?\\_r=0](http://www.nytimes.com/2009/12/30/business/global/30samsung.html?_r=0).

<sup>35</sup> Park Geun Hye's relatively close margin of victory was 3.6 percent, greater than either Kim Dae Jung and Roh Moo Hyun's. In 2007, Lee Myung Bak won by 22.6 percent.

can file suits claiming defamation against journalists<sup>36</sup> and have critical lawmakers such as Roh Hoe Chan arrested and evicted from the Assembly for publishing incriminating wiretaps on his web site.<sup>37</sup> *Chaeböl* greed and vanity are a common trope in modern Korean cinema<sup>38</sup> and TV dramas,<sup>39</sup> and many Koreans have expressed concern that the preponderance of *chaeböl* growth, among other things, leaves little room for small businesses.<sup>40</sup>

However, they seem unwilling to sacrifice hoped-for gains in the national economy to achieve it: Samsung alone accounts for twenty percent of national GDP and thirteen percent of its exports. There is little faith among observers that Park will make serious efforts to counteract their influence; fears of an economic slowdown had caused her campaign to tone down its rhetoric by the end of her campaign.<sup>41</sup> Since taking office, what reform efforts have been proposed – primarily stiffening of the fair trade law – have met resistance within her party<sup>42</sup> and the nation's conservative media, who cite the need for "urgent action to restore the economy."<sup>43</sup>

In order for the nation to take on the task of *chaeböl* reform, the first step will require a change in how the general population views economic growth. In this respect the nation has been a victim of its own successes, as the rapid expansion of the economy starting in the early 1960s and continuing throughout the 1980s has created expectations that a nation, particularly one without the vast supply of cheap labor and foreign aid Park Chung Hee enjoyed, cannot expect to match. More recent schemes to turn around the economy quickly have produced unintended consequences: for example, in an effort to revive consumer spending after the crisis, Kim Dae Jung's administration relaxed restrictions on credit card spending; by 2010, Korean household debt equaled 155 percent of disposable income, compared to 138 percent among US consumers prior to their subprime mortgage crisis.<sup>44</sup>

This desperation for growth is not restricted to the general public; Choong Nam Kim, to whom this study is greatly indebted, praises Park Chung Hee as a "heroic leader" despite his authoritarian policies<sup>45</sup> and criticizes Roh Moo Hyun for his "poor" economic performance<sup>46</sup> when the Korean economy averaged 4.25 percent annual growth while he was in office. This was indeed lower than the OECD average at the time, but the bursting of the US housing market bubble near the end of the decade revealed much of that growth to be an illusion. Roh's

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<sup>36</sup> Glionna, John M. "Samsung Doesn't Find Satirical Spoof Amusing," *The Los Angeles Times*, May 10, 2010.

<sup>37</sup> McNeill, David and Donald Kirk. "Tax Evasion, Bribery and Price-fixing: How Samsung Became the Giant That Ate Korea," *The Independent* (London), February 25, 2013.

<sup>38</sup> Park, Ju-min. "Raw, Gritty Film Takes on Korea's Powerful Chaebol," Reuters, June 13, 2012, section goes here, accessed May 02, 2013, <http://www.reuters.com/article/2012/06/13/entertainment-us-korea-movie-conglomerat-idUSBRE85C05Y20120613>.

<sup>39</sup> "Ranking of TV Drama's Chaebol Characters," Electric Ground, March 28, 2011, accessed April 25, 2013, <http://belectricground.com/2011/03/28/ranking-of-tv-drama-chaebol-characters/>.

<sup>40</sup> Yoon, Sangwon, "Koreans Fret World-Beating Chaebol Destroy Small Business," Bloomberg, November 12, 2012, section goes here, accessed May 02, 2013, <http://www.bloomberg.com/news/2012-11-12/s-koreans-fret-world-beating-chaebol-destroys-small-busi.html>.

<sup>41</sup> Jung, Ji-Hye. "Park Tones down on Chaebol Reform," *The Korea Times*, November 16, 2012, accessed April 25, 2013, [http://koreatimes.co.kr/www/news/nation/2012/11/113\\_124907.html](http://koreatimes.co.kr/www/news/nation/2012/11/113_124907.html).

<sup>42</sup> Song, Su-hyun and Jeong-wan Joo, "Chaebol Defenders Start to Surface," *Korea JoongAng Daily* (Seoul), April 13, 2013.

<sup>43</sup> "Let the Chaebol Do Their Job," editorial, *Let the Chaebol Do Their Job-INSIDE Korea JoongAng Daily*, April 17, 2013, accessed April 25, 2013, <http://koreajoongangdaily.joinsmsn.com/news/article/Article.aspx?aid=2970290>.

<sup>44</sup> Yoo, Choonsik. "Analysis: South Korea's Reckless Consumers Edge towards Debt." *Reuters*, August 25, 2011. Accessed May 06, 2013. <http://www.reuters.com/article/2011/08/25/us-korea-economy-debt-idUSTRE77O4JU20110825>.

<sup>45</sup> Choong Nam Kim 145.

<sup>46</sup> *Ibid* 373.

successors would have considered four percent growth a boon, as would the economies of the United States and much of Europe today.

Finally, the positioning of business giants above the law through lenient sentencing, presidential pardons, and defamation laws making it risky to criticize them shows how Korea's leaders continue to overlook the importance of the rule of law. Gi-Wook Shin has written of Korea's "poverty of liberalism,"<sup>47</sup> in that leaders of both North and South Korea have persistently upheld nationalist objectives over individuals' civic rights. If individual liberties are to be upheld, the principal that all individuals are equal under the law must be enforced, regardless of wealth and influence. In a roundabout way, Lee Myung Bak's administration may have encouraged this principle, as a round of pardons of Lee associates in the last month of his presidency prompted outrage and criticism not only among opposition parties, but also Park Geun Hye and Kim Geo Seong,<sup>48</sup> chairman of Transparency International, Korea, who called for an overhaul of the presidential pardons system in Korea.

The above-mentioned problems lead back to the Kim Young Sam administration for several reasons. Though Chun Doo Hwan and Roh Tae Woo before him talked of *chaebŏl* reform, Kim embarked on a much more serious anti-corruption campaign than either of them, and all presidents since then. In both 1995 and 1996, the first years of Transparency International's Corruption Perceptions Index, Korea ranked twenty-seventh internationally in freedom from public sector corruption. After his departure, the nation backslid, and in the 2012 edition of the index ranked forty-fifth, behind Japan (seventeenth) and fellow Asian Tigers Singapore (fifth), Hong Kong (fourteenth), and Taiwan (thirty-seventh). South Korea has never finished ahead of any of these four countries in the index's eighteen-year history.<sup>49</sup>

Furthermore, had Kim not pursued extravagant dreams of economic growth but instead insisted on reform of the *chaebŏl*'s business practices and the prosecution of the ten *chaebŏl* leaders connected to Roh Tae Woo to the fullest extent, he would have set a precedent, with experts such as Graham stating that Korea would have likely avoided the worst effects of the Asian Financial Crisis. Credit restrictions should be enforced, the rule of law treated as sacrosanct, and a more thorough corporate governance regime – Korea's current one has a poor reputation internationally<sup>50</sup> – established.

Park Geun Hye, as well as her successors, would do well to study the events of Kim Young Sam's presidency. They should not be under any illusions: choosing reform of the *chaebŏl* instead of their rapid expansion into new sectors would have meant that Kim had to put off achieving the \$10,000 a year per capita income milestone, and perhaps OECD membership. By the 1997 election, Kim would likely have left office facing murmurs similar to those surrounding Roh Tae Woo, that Korea was in "recession" and that a dynamic leader was required to take the nation to new heights.

Firm commitment to their reform would have had benefits, though, and not just of a moral variety: stricter credit policies would have led to a far less indebted *chaebŏl* class and this (plus a more prudent monetary policy) could have helped Korea avoid the most calamitous effects

<sup>47</sup> Shin, Gi-Wook. *Ethnic Nationalism in Korea: Genealogy, Politics, and Legacy*. Stanford, CA: Stanford UP, 2006. Pg. 132-134.

<sup>48</sup> Kim, Geo-sun. "Stop Misuse of Presidential Pardons," Space for Transparency, February 6, 2013, section goes here, accessed May 02, 2013, <http://blog.transparency.org/2013/02/06/stop-misuse-of-presidential-pardons/>.

<sup>49</sup> Transparency International, "Corruption Perceptions Index - 2012," Corruption Perceptions Index - 2012, December 6, 2012, section goes here, accessed December 4, 2012, <http://cpi.transparency.org/cpi2012/>.

<sup>50</sup> Hayes, Chris, "Korean Corporate Governance Reported as One of the Worst by an Economist," The Korean Law Blog, May 9, 2013, accessed May 10, 2013, [http://www.thekoreanlawblog.com/2013/05/korean-corporate-governance-reported-as.html?utm\\_source=feedburner&utm\\_medium=email&utm\\_campaign=Feed%3A+thekoreanlawblog%2FvNsW+%28The+Korean+Law+Blog%29](http://www.thekoreanlawblog.com/2013/05/korean-corporate-governance-reported-as.html?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+thekoreanlawblog%2FvNsW+%28The+Korean+Law+Blog%29).

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of the Asian Financial Crisis. Vindicated by a stable economy in a tumultuous climate, Kim Young Sam could have seen a successor from his party elected in 1997, and in his post-presidential years he could have boasted of providing a blueprint for future presidents to follow. Even more important, judicious treatment of the *chaeböl* under the law and the “market capitalism” of Kim and Sin could have prevented the loss of faith in Korea’s public institutions and their ability to combat corruption. This could also have preempted more recent discussions over a “fair society” and “balanced growth.” The push for rapid expansion, though, has remained a political siren’s song for presidential hopefuls, leading them to set growth goals difficult to achieve under normal conditions and certainly not while bringing its largest business groups to heel.

Though Park Geun Hye’s situation has its differences with Kim’s, the need for *chaeböl* reform remains widely claimed and for good reason: in addition to the negative effects of wealth inequality and *chaeböl* overexpansion, those in South Korean society who criticize them today do so at great risk professionally, socially, and legally. Kim Young Sam had the potential to bring about an improvement in the situation and worsened it. It remains to be seen whether Park will take full advantage of the opportunities she has.

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